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DETERMINED TO BE AN  
ADMINISTRATIVE MARKING  
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By BAC NLE, Date 5-10-77

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of receipts for FY '58 had fallen off by \$600 million without being much noticed, given the concern over Sputnik. Defense expenditures were originally planned for both FY '58 and FY '59 at a level of \$38 billion, but the Administration now was thinking of a figure a little higher.

The President stated that a program was being developed for some reorganization in Defense. He added that a group was working on this with a view to legislation which would centralize more authority in the Secretary. The President thought that one specific thing was to have more of the appropriation made to Defense rather than to the individual services.

Mr. Brundage hoped that increases for defense could be divided between a '58 supplemental and the '59 budget. He reported on a recently completed analysis of missile development to which \$4.2 billion had been devoted in the last fiscal year; for all research and development the sum was much larger and would be still larger in '59.

Mr. Brundage then noted the impossible fiscal situation that resulted from the nature of present agricultural programs -- where insects and any number of other factors determined agricultural expenditures without real possibility of accurate advanced budgeting.

Rep. Martin wondered how estimates of receipts could be maintained at \$73 billion if business should keep falling off. The President made a quick comment on the importance of not underestimating income at a time when the psychological factor of confidence was important. Secretary Anderson added that there was no possibility of being precise when one looked at the whole economic picture. All factors considered, he felt less optimistic than formerly. He noted the decline in corporation profits and the squeeze between wages and prices, the condition of our currencies and reserves abroad with gold continuing to flow out, and the slight increase in unemployment. He noted briefly some optimistic factors such as the demand for electric utility expansion, the high level of defense expenditures, and construction plans of municipalities. Rep. Martin recognized all this but continued to be concerned about the business situation in New England and elsewhere, particularly because of Japanese competition. Mr. Anderson saw some prospect that expansion of construction would provide job opportunities.

Sec. Anderson remarked on the periodic discussions with the Council of Economic Advisors and the Federal Reserve Board, keeping close touch on the economy. He made clear that this was not an effort to influence FRB policy, but rather to insure that the basic statistics used by the two groups were in agreement -- or at least both of them fully considered.

Sec. Anderson cautioned the Leadership against regarding the current economic situation in exactly the same terms as in 1953 when it was essentially a problem of inventory, whereas it is now a problem of capital. Other changes involved the fiscal situation of foreign countries and the matter of confidence among the United States people and business

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